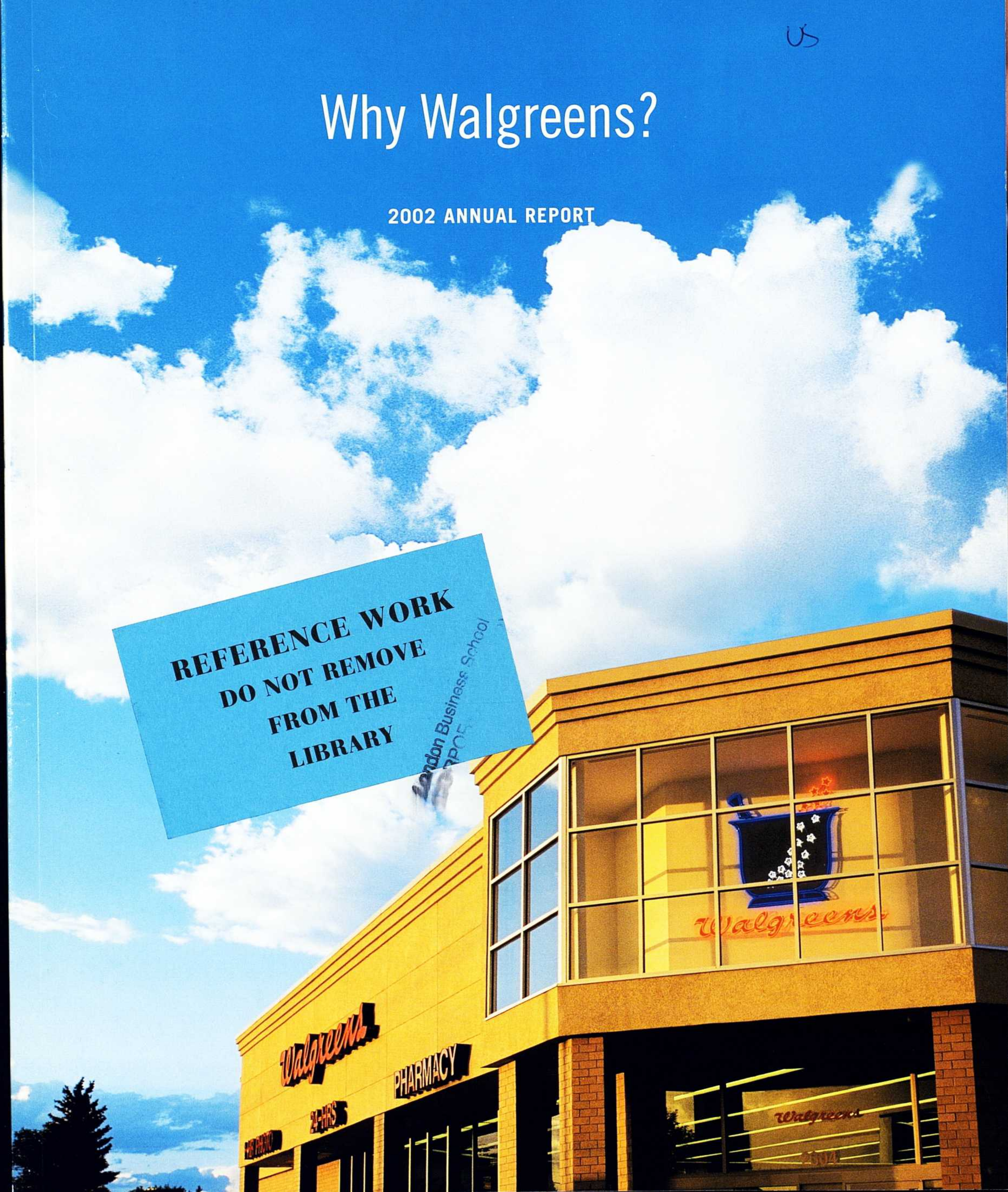
US

Why Walgreens?

2002 ANNUAL REPORT



We're the youngest 101-year-old retailer in America.

One-third of our stores are less than three years old.

We'll add more than a store a day in 2003.

By 2010 Walgreens plans to operate more than 7,000 stores.

Walgreens serves a diverse America.

We provide prescription label information to patients in eight languages.

Fortune ranks Walgreens No. 3 in overall employee talent.

Nearly 30 percent of our 141,000 employees have at least five years of service.

We innovate for the customer in our stores and online.

More than 3.4 million customers visit our 3,883 stores or Walgreens.com every day.

We gained national market share in 52 of our top 60 categories in 2002.

We're winning business not only from drugstores, but from discounters and grocers.

Cover: Cheyenne, Wyoming

WALGREENS MISSION is to offer customers the best drugstore service in America. We are guided by a century-old tradition of fairness, trust and honesty as we continue to expand our store base and offer career opportunities to a fast-growing and diverse group of men and women. Our goal is to develop people who treat customers – and each other – with respect and dignity. We will support these efforts with the most innovative retail thinking, services and technology. The success we achieve will allow us to reinvest in our future and build long-term financial security for our employees and our shareholders.

We print 4.4 million memories daily in our 1-hour photo labs

Guests at this Chicago-area wedding last summer ran film to their corner Walgreens minutes after the rice hit the pavement. Weddings, graduations, proms…whatever the event, we help people preserve their memories. Our single-use cameras are top sellers, and we continue adding services to support our "anything photo" destination for shoppers. We place a high value on convenience in every part of our stores. The average Walgreen shopping trip takes just 12 minutes…from the time a customer enters the store to when she leaves, Walgreen bag in hand. So smile big and say cheese…we give customers more time to enjoy life.

Financial Highlights

For the Years Ended August 31, 2002 and 2001

(In Millions, except per share data)	**2002**	2001	Increase
Net Sales	**$28,681.1**	$24,623.0	16.5%
Net Earnings	**$ 1,019.2**	$ 885.6	15.1%
Net Earnings per Common Share (diluted)	**$ .99**	$ .86	15.1%
Shareholders' Equity	**$ 6,230.2**	$ 5,207.2	19.6%
Return on Average Shareholders' Equity	**17.8%**	18.8%	
Closing Stock Price per Common Share	**$ 34.75**	$ 34.35	
Total Market Value of Common Stock	**$ 35,616**	$ 35,017	1.7%
Dividends Declared per Common Share	**$ .145**	$ .140	3.6%
Average Shares Outstanding (diluted)	**1,032.3**	1,028.9	0.3%

Questions and Answers for Our Shareholders

November 18, 2002

Chairman L. Daniel Jorndt (left) with president and chief executive officer David W. Bernauer.

"Beautifully boring" – that was the description of Walgreens and other companies who made *Bloomberg Personal Finance's* "Profit Champ" list this fall. Each of the 51 firms recognized has achieved increased earnings per share for at least 10 consecutive years. In Walgreens case, the streak is approaching three decades.

During this past rocky year, when the bears ruled the stock market and economic news turned morning coffee bitter, we completed our 28th consecutive record year – and first billion-dollar earnings year – while opening 471 stores and investing nearly $1 billion in new stores, distribution centers and technology improvements. And in a world where cash is now king, we ended 2002 with over $400 million in the bank, nearly $3 billion in owned real estate, virtually no debt and the wherewithal to self-finance accelerating growth and customer service innovations. As one analyst commented recently: "Profits are opinion, but cash is a fact."

It was a record year, but fourth quarter earnings came in a penny light of expectations. Why?

Dave Bernauer: Pure and simple, this was a sales problem. Prescriptions were excellent – up 20 percent for the quarter and more than 21 percent for the year. But fourth quarter front-end – non-pharmacy – sales were anemic, particularly for promotional and summer seasonal merchandise. Those weak sales held our profit below Wall Street's expectations. A company with our stock market valuation isn't allowed a toe-stub, and our stock took a hit.

Why the weak sales?

Dan Jorndt: The easiest culprit is the economy, but we're not taking that bait. One of the beauties of our admittedly "boring" business is its staying power – we sell everyday, consumable items that people *need* more than *want*. Some times are tougher than others, but since the mid-1970s – through recessions and boom times – we've never had a down year. So when sales are tight, we look in the mirror…and adjust. We've made lots of corrections, especially in our advertising, to ensure that fall and holiday sales are more "Walgreen-like," that is, good, strong front-end sales.

Quite frankly, we got out of balance this summer. We were less promotion-oriented, which helped increase our gross profits, but hurt the top sales line. Advertising is always a delicate balance and we're moving the pendulum a little more in favor of traffic building. But we're seeking middle ground. Walgreens is not a retailer that sacrifices all to drive sales. We will get the top line moving…sensibly.

Walgreens keeps adding stores despite the economic slowdown. Is this smart?

Bernauer: There's never been a better time for us to expand. We have the sites, the cash, the people…and America has the need. The only retail segment where sales are outpacing store growth is drugstores. In 2001, the number of retail prescriptions climbed 5 percent, while drugstore outlets grew only 1 percent. Although we're the largest prescription provider in the nation, we still fill only 12 percent of the total, which gives us outstanding growth opportunity.

What about Wal*Mart?

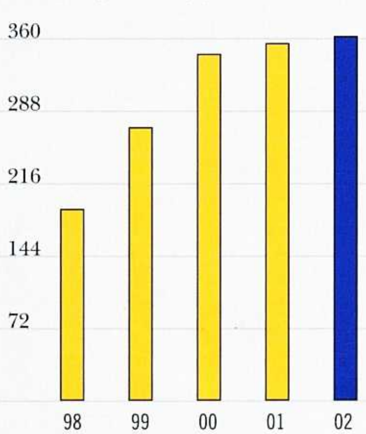
Bernauer: What about *any* competitor? Any store that sells what we sell is on our radar screen. Our strategy has always been to define our segment – convenient healthcare and basic need retailing – and do it better than anyone else. We've seriously – and successfully – competed head-on with Wal*Mart for a quarter century now. They're not new competition. They *are* excellent, respected competition…and they're also one of the few retailers expanding at the same pace we are. Top competitors like Wal*Mart make us better. We watch them… they watch us.

Inventory was high going into fiscal 2002. How did you end up?

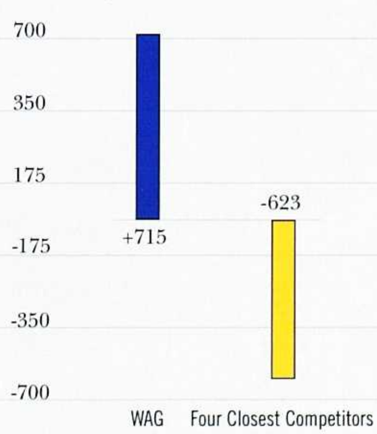
Bernauer: A chunk of our positive cash position is due to a big improvement in inventory levels. We had a bad case of indigestion last year, but ended 2002 with inventories up just 5 percent, despite a 16.5 percent sales increase and opening a record 363 net new stores plus new distribution centers in Jupiter, Florida, and Waxahachie, Texas. More importantly, we didn't just blow out product with severe price cuts. We used our systems to attack overages on an orderly basis without hurting gross profit margins and in-stock conditions.

Short-term borrowings of $441 million were completely repaid during the year. For my money, the beauty of our 2002 balance sheet rivals Monet, showing a positive cash swing from borrowing to investing of nearly $900 million.

Walgreens Net Store Growth
Number of stores by year



Walgreens versus Competition
Net store growth, 2000-2002



Source: Published company reports

3,883 AND GROWING

Walgreens is the most "national" – and fastest growing – drugstore chain in America. In 2002, we filled 361 million prescriptions – 12 percent of the U.S. retail market and more per store than all major competitors. Our stores average $7.1 million or $654 per square foot in annual sales. Looking ahead, in 2003 we plan to open 450 new stores (approximately 360 net), add 12,000 new jobs and open our third new distribution center in just two years.

Dan Jorndt retires in January after 40 years with Walgreens. Since 1990 he's served as president, CEO and then chairman, leading this company through its period of greatest expansion and innovation. Dan Jorndt's two favorite words are "thank you." On behalf of all shareholders, we thank him for his leadership, honesty, retail savvy, tough decisions, long days and nights, sense of humor and the example he's set. Quite simply, he's made all of those whose lives he's touched a little richer. We wish him and his wife, Pat, the best – and most active – of retirements.

What was the impact of generic drug introductions last year?

Jorndt: Very positive. Generics save money for patients and their providers, both private insurance companies and state Medicaid plans. For Walgreens, while the higher mix of generics to brands slowed our top-line sales growth trend slightly last year, it had a healthy impact on the bottom line. The most important metric in pharmacy is the number of prescriptions. We filled 361 million in 2002, up almost 12 percent from the previous year, and more than double the national increase.

Is there still a pharmacist shortage?

Bernauer: There is a shortage…a big one. But aside from a few markets, we're in good shape. At the end of fiscal 2002, we had 1,600 more pharmacists working for us than a year ago. We're meeting ongoing needs and staffing over 360 net new drugstores a year. We also have the pharmacists to cover 900 24-hour stores. That's more than half of *all* 24-hour pharmacies in America.

If you could stress just one thing to shareholders this year, what would it be?

Jorndt: The quality of our earnings. Warren Buffet has a good quote: "It's only when the tide goes out that you learn who's been swimming naked." A lot of skinny-dippers have surfaced in the past year, bringing down high-flying companies and millions of shareholders. Believe me, we at Walgreens have our swimsuits on, and they're those scratchy knee-to-neck getups beach lovers wore in the 1920s. More boring than bikinis and thongs? You'd better believe it. But accounting works best when it's boring.

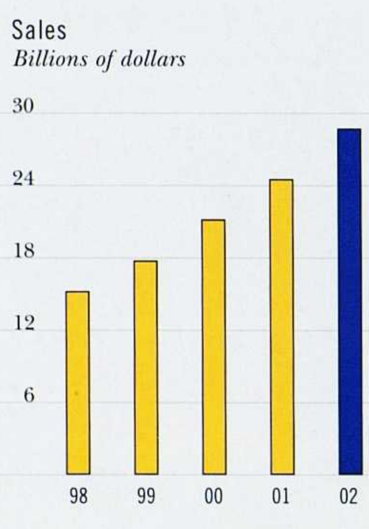
Our earnings are all about quality. Our financial statements are straightforward…what you see is what you get. We pay as we go and, other than store leases, everything is on our balance sheet. With no one-time charges and virtually no debt, WAG made the "Top 10" on a recent Merrill Lynch list of firms with quality earnings.

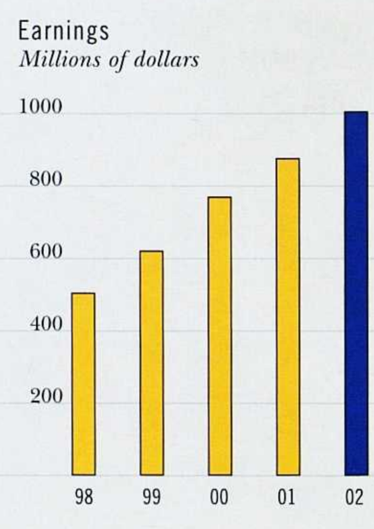
What worries you?

Bernauer: Mostly, stuff that's difficult to control. That includes the current economy as well as government actions. As our population ages, healthcare costs are going up, up, up. This will require government at all levels to make some very tough decisions about resource allocation. We believe it's our job to invest, create jobs, serve customer needs and get a return for these efforts, a return on which we pay significant taxes. It's the government's job to provide social

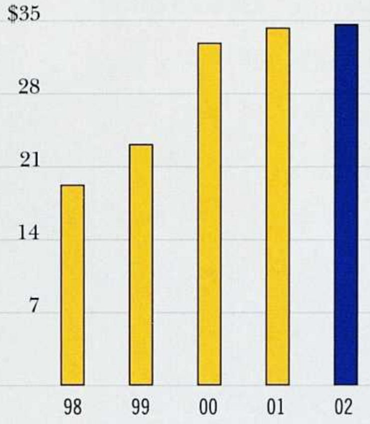
WHAT ARE WE WORTH?

As of August 31, 2002, Walgreens market capitalization was $35.6 billion. That ranks us third among U.S. retailers and third in the world. In terms of sales volume, we rank No. 78 in the *Fortune 100*. Walgreens has paid dividends in every quarter since 1933 and has raised them for 27 consecutive years. Since 1980, we've had seven two-for-one stock splits.



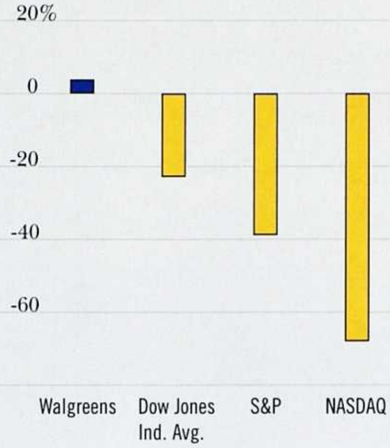


Stock Performance
*Year-end closing price per share**



** Prices are adjusted for a two-for-one stock split in 1999.*

Walgreens versus Market Trends
Two-year growth rate
September 1, 2000 – August 31, 2002



WALGREENS STOCK PERFORMANCE

10 YEARS
On August 31, 1992, 100 shares of Walgreen stock sold for $3,838. Ten years later, on August 31, 2002, those 100 shares, having split three times, were 800 shares worth $27,800, for a gain of 624 percent.

20 YEARS
On August 31, 1982, 100 shares of Walgreen stock sold for $3,600. Twenty years later, those 100 shares, having split six times, were 6,400 shares worth $222,400, for a gain of 6,078 percent.

services. Although pharmacy consumes only 10 percent of the nation's healthcare bill and is the most cost-effective form of treatment, there have been moves recently to slash state Medicaid reimbursement to levels below the filling cost. We and other community pharmacies cannot accept plans – public or private – on which we lose money.

January marks a new era, as Dan Jorndt retires and Dave Bernauer adds "chairman" to his CEO position. What will change?

Jorndt: I've had a great 40-year run with this company, but it's time for new blood. Same core strategy, same execution…someone else calling the shots. These moves are part of our long-term succession plan. We're blessed in not having to go outside for CEOs. Dave Bernauer and our new president, Jeff Rein, are both pharmacists who started in the stores and have spent long careers here. They, and what I call the "new generation" of Walgreen leaders behind them, are among the top retailers in the country. These men and women know drugstores inside out and bring amazing energy and relentless character to their work. It will be a pleasure to watch their progress.

Jeffrey A. Rein will become president and chief operating officer in January 2003.

IN A TOUGH BUSINESS ENVIRONMENT, where confidence in corporate America has plummeted, we feel compelled to say, "No, Chicken Little, the sky isn't falling." We read volumes about the failures…while the thousands of successful companies receive little press. We can't solve the world's ills, but we can promise you, our shareholders and employees, that we'll do our level best to restore faith in what's good about American business. At Walgreens, we know who we are and what we're about. We have a competitive format and clearly defined strategy…a growing demand for our products and services…healthy cash and inventory positions…superior real estate and technology…and motivated, seasoned people at every level. Thanks for your faith in our long-term future…it's a solid one.

L. Daniel Jorndt
Chairman

David W. Bernauer
President and Chief Executive Officer

We're the youngest 101-year-old retailer in America

Walgreens is one of America's oldest retailers... with one of the youngest store bases — half the chain is less than four-and-a-half years old. We're fresh, innovative and committed to the basics that made Charles Walgreen a success in 1901 — basic products, basic courtesy, basic values. Long-time store manager, shareholder and retiree John Gleeson Sr. (below) embodies the Walgreen story. At age 89, he's been associated with the company for more than seven decades. "Walgreens made me a wealthy man," says Gleeson. "I invested in our stock throughout my 46-year career, and over the years have donated shares to my church, friends and family. I'm also proud to say I'll be able to send my grandchildren to college." Shown at a soccer game with his daughter-in-law Judy Gleeson, grandson Michael (right) and Michael's teammate, Gleeson is one of more than 600,000 shareholders who've benefited from Walgreens steady growth.

We'll add more than a store a day in 2003

We may not multiply like rabbits, but under current plans we'll nearly double — to 7,000 stores — by 2010. For employees, that means advancement opportunities have never been better. Our reputation, success, stability and strong financial position are huge drawing cards in these times of economic uncertainty. We'll continue to hire people like management trainee Arnie Lopez (center) in Chula Vista, California, shown here with assistant manager Sophie Genicot (right) and photo specialist Veronica Howard. Lopez is training to be a store manager in Southern California — one of our fastest growing markets. "I was born to be in retail," he says. "I love displaying merchandise, learning about new products and serving customers. My bosses have been wonderful role models, and I'm looking forward to running my own show."

Walgreens serves a diverse America

Vicki Fong (above), a pharmacist in Chicago's Chinatown, has lots of fans in her local community. But her Chinese language skills are also in use by thousands of Walgreen pharmacists and patients across America. Thanks to translation work by Vicki and other employees, our computers now print prescription labels in Chinese, French, Polish, Portuguese, Russian and Vietnamese, in addition to English and Spanish. "Ninety percent of my patients don't speak English," says Fong, a native of Hong Kong. "I always try to review prescriptions at the counter, but having directions printed on the label in Chinese helps people remember what I said. This makes dispensing drugs safer and shows that we care." With 18 percent of Americans speaking languages other than English, this service has become very popular. So far, nearly 350,000 patients have requested translated labels.

Fortune ranks Walgreens No.3 in overall employee talent

Our spanking new distribution centers in Jupiter, Florida, and Waxahachie, Texas, are behemoths of high-speed automation and efficiency. At full capacity, Jupiter will accept three miles of pallets, send out 60 miles of cases to our stores and travel once around the world by truck... all in a day. Sue Thoss (below), director of systems integration in Logistics, plays a major role in developing these centers. "To support rapid growth," says Thoss, "we've built flexibility into our warehouses that allows us to expand and upgrade automation." Thoss, industrial engineer Shawn Manimalethu (left) and Jupiter's distribution center manager Rob Varno (right) are three reasons Fortune *ranked us No. 3 in employee talent and No. 2 in quality of management... among* all *American companies.*

We innovate for the customer in our stores and online

Author Janine Warner (right) educates the world about the Internet. When her mother, Malinda McCain (left), used Walgreens.com to print a prescription history, Warner was impressed and featured our Web site in her sixth book, "Managing Web Projects for Dummies." "Walgreens.com goes far beyond selling prescriptions online," says Warner. "Because the site shares the same database with the stores, the company coordinates store and online services. Very few retailers can do that." Warner speaks to what we call our "Rx Safety Net" — a total package that gives customers seamless pharmacy services at the counter, on the phone and online, 24 hours a day, anywhere in the United States. Walgreens.com allows patients to add health conditions and nonprescription drugs to their profiles and track immunizations and other health records.

We gained national market share in 52 of our top 60 categories in 2002

You'd think he worked for Walgreens, he visits our offices so often. As manufacturing representative for Wrigley, Paul Iannarone (above) has helped us build our gum and mint category over the last 20 years. We're one of Wrigley's top five customers and have sold their products for more than 75 years. "Walgreens does it right," says Iannarone. "They know their customers and share information with vendors to build sales." The numbers support his claim: Our stores rack up double-digit growth in the entire gum and mint category year after year, led by Wrigley products. Store expansion fosters market share growth along with our continued efforts to fine-tune BDM, our basic department management system that tailors product categories to individual stores.

All indications tell us it's the right time to expand. America's pharmacy sales are forecast to increase 60 percent in just four years, and there's plenty of opportunity for growth – we now fill only 12 percent of the nation's prescriptions.

Our 430 North Michigan Avenue store – one of 13 within a one-mile radius in downtown Chicago – swarms with tourists and office workers. Walgreens has had a strong urban presence for a century, and customers depend on our clean, well-lit, well-stocked neighborhood stores.

Operations Report

Why Walgreens?

Because we're not your average pharmacy. Yes, we compete well with traditional chain drugstores. But when it comes to growth, technology, financial condition and stock performance, we're mentioned most often in the company of Wal*Mart, Kohl's, Home Depot and Best Buy. Here's why.

We're the only drugstore chain significantly expanding square footage

We're growing – not just opening new stores and closing old ones, but really *growing*. We're gaining geographic coverage, national customer recognition, leverage with managed care and economies of scale for advertising, distribution and headquarters support. We'll add about 450 stores and surpass our 4,000-store milestone in fiscal 2003, on our way to a planned 7,000 stores by 2010. All indications tell us it's the right time to expand. America's pharmacy sales are forecast to increase 60 percent in just four years, and there's plenty of opportunity for growth – we now fill only 12 percent of the nation's prescriptions.

Fifty percent of our stores are less than four-and-a-half years old

We're not ones to hang on to white elephants, and our strong financial condition means we don't have to. During the past five years, we opened or remodeled 2,094 drugstores – that's more than half of all existing Walgreens. And we don't build our chain at the expense of existing stores. In fiscal 2002, sales in comparable stores (those open more than a year) rose 10.5 percent. We rank No. 1 in 20 of America's top 50 drugstore markets and No. 2 in nine.

Major expansion continues in the Sunbelt, as we concentrate our heaviest growth in Texas, California, Florida, Georgia, Arizona and the Carolinas. When we dense up in established markets, we create the "waterfall effect," best described by a St. Louis customer: "It's like you have to go to Walgreens, they're everywhere."

A Decade of Transition

	2002	*1992*
Total stores	**3,883**	1,736
Freestanding stores	**2,973**	231
24-hour stores	**900**	184
1-hour photo stores	**3,785**	6
Drive-thru pharmacies	**2,879**	16

Our real estate site selection process is painstakingly thorough

We build sites where *we* want to be, rather than where a site happens to be. In the past 10 years, we've opened 3,109 stores and closed only two of them due to poor sales. That's better than a .999 batting average…better even than Ted Williams. Ten years ago, our site selection was cannonball-driven. Today, we target new locations like a laser-guided missile. Focus groups have shown that people want a Walgreens within two miles of where they live. Right now, approximately 60 percent of the U.S. population lives within five miles of a Walgreen store, approximately 40 percent within two miles.

We Go Where the People Go

Fastest growing by population	*Stores in 2006*	*Stores today*
California	**508**	325
Texas	**480**	391
Florida	**752**	578
Georgia	**128**	51
Arizona	**237**	192

We gained national market share in 52 of our top 60 categories

"Success is about doing 1,000 things right, day after day," our founder, Charles R. Walgreen, used to say. In 2002, our market share grew by doing thousands and thousands of little things right. For example, we saw significant gains in cough/cold products, snack foods, stationery and health monitoring devices. We're also the nation's No. 2 seller of cosmetics, second only to Wal*Mart. Sixty-five percent of our shoppers use cosmetics, but depending on ethnic background, income level and age, they look for a different product mix. In the past two years, we've built flexibility into serving individual neighborhoods by creating different cosmetic wall designs. We've also added two new ethnic makeup lines to be sold exclusively at Walgreens for the first year.

Customer Jim Schmid shops our food department in Charlotte, North Carolina. Snacks are a premier convenience item purchased by 99 percent of households in America. We now use our basic department management system to adjust snack assortments to meet diverse customer tastes in individual stores.

Our 680,000-square-foot distribution center in Jupiter, Florida, could hold 50 Walgreen stores under its roof. Packed with high-speed automation, Jupiter is 40 percent more productive than the previous warehouse prototype. We opened two distribution centers in calendar 2002, and we'll add facilities in California and Ohio within the next two years.

Product Market Share Growth
Sales trends for Walgreens Top 60 categories

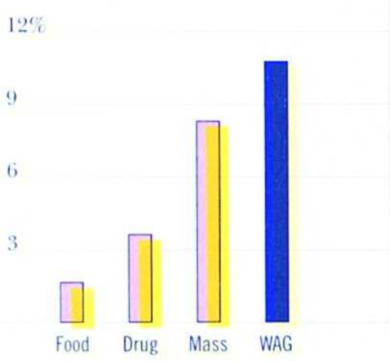


Chart compares Walgreens fiscal 2002 sales trends to grocery stores (food), all drugstores (drug) and discounters (mass) for 52 weeks, ending August 10, 2002.

Source: A.C. Nielsen

Nobody's more convenient

Walgreens convenience fights the discounters and mega-grocers punch for punch. We're in the neighborhood of more customers, parking is closer to the store, there's less floor space to traverse and it's easy to find what you need. Plus, we now have 900 24-hour stores – 55 percent of *all* 24-hour pharmacies in America. Every night, these stores fill more than 14,000 prescriptions, 77 percent of them for "gotta have" medications like painkillers and antibiotics. A whopping 2,879 of our stores have drive-thru service. The next closest competitor has less than half that. Other Walgreen conveniences include 1-hour photo service, available in nearly every store, and food aisles for fill-in grocery needs between major trips to the supermarket.

No one sells more prescriptions

Prescriptions accounted for 60 percent of sales in fiscal 2002 – a year when we filled 361 million prescriptions and each pharmacy averaged $13,000 in sales daily. The introduction of generics for several powerhouse drugs, and our ability to convert patients into generic believers quickly, saved customers money and boosted Walgreens profit line. With the aging of America and the introduction of new life-saving drugs, we see nothing but opportunity in the prescription market. Not only will the numbers of senior citizens grow, but they'll use more drugs. In 1992, the average number of prescriptions filled for people 55 years or older was 17. That number jumped to 26 in 2000, and is projected to be 36 by 2010.

What attracts pharmacists? Stability, technology, staff support

Although prescription demands are burgeoning, the number of available pharmacists will increase by only 7 percent over the next five years. That means by 2007, pharmacists will be responsible for filling a third more prescriptions than they do today. There simply will not be enough pharmacists to go around, and those who *are* available will go where they find the tools to handle the increased load. We're ready, and they're coming. We hired 1,200 pharmacists out of school last year and 2,100 from competition. They were attracted to our reputation, benefits, stability, leading technology and commitment to the pharmacy technician certification program, which provides better staff support. The pharmacists we hire today are standing on the shoulders of 101 years of experience, and with every achievement, we push our performance bar higher.

Walgreens Health Initiatives is a $1 billion business

Our managed care division, Walgreens Health Initiatives, started as a mail service pharmacy business in 1991. Today, it's reached nearly $1 billion in annual sales and is a natural extension of our "Rx Safety Net," increasing the number of pharmaceutical services we can offer. In addition to mailing prescriptions, WHI handles third party sales, pharmacy benefit management, specialty pharmacy support for patients with chronic diseases and home care services for people who need oxygen and other medical supplies.

We've posted 28 consecutive record years

Walgreens financial position has never been stronger. We're generating strong cash flow from operations; we have virtually no debt; we have more than $400 million in the bank and nearly $3 billion in owned real estate. In September, we cracked Merrill Lynch's "Top 10" list of firms with quality earnings. We have cash, yes, and we're pouring it back into our future. This year, we'll spend a projected $1 billion for new stores, distribution centers and technology. Our long-term stock performance, meanwhile, reflects these financial positives. In the 2002 fall issue of *Money*, Walgreens ranked No. 3 on its list of the 30 stocks with the best 30-year returns.

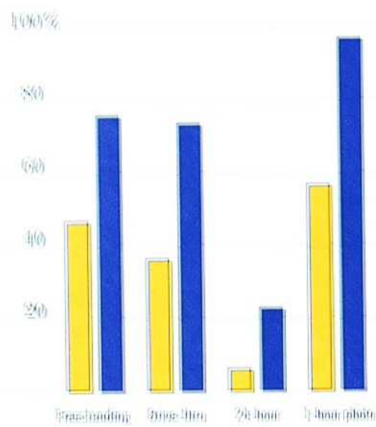
Sixty-five percent of the patients in Tiyaji Rogers' Houston pharmacy suffer from HIV/AIDS. "We constantly study the trends, medications and services available for their treatment," says Rogers. "It's stimulating – and rewarding – work. The best part of my job is building personal relationships with my patients."

We rank No. 1 in 20 of America's top 50 drugstore markets and No. 2 in nine. Major expansion continues in the Sunbelt, as we concentrate our heaviest growth in Texas, California, Florida, Georgia, Arizona and the Carolinas.

Leading the Convenience Race

Percentage of stores with these services

- Walgreens
- Average of three closest competitors



Source: William Blair & Company

We lead in systems technology

Our systems are the building blocks that allow employees to provide the most efficient service in the chain drugstore industry. Intercom Plus, our pharmacy computer/workflow system, integrates all Walgreen pharmacy services – in-store, online, mail…anywhere in the country, 24 hours a day. Enhancements have also speeded third party insurance claims. SIMS Plus, our strategic inventory management system, determines how much product should be on the shelves and forecasts store orders. BDM, Walgreens basic department management system, tailors product categories to individual stores across the chain.

The "Rest of the Story" – We sponsor Paul Harvey

When we say, "You're always welcome at Walgreens," we want people to hear the words…and the 101 years behind them. We have a trusted brand name, and we're building that trust in new markets. We're now running national radio ads featuring Paul Harvey and Charles Osgood. For television, we're teaming up with Tribune Broadcasting to produce a weekly WGN-TV and WGN Superstation health program. And through television and radio advertising, we're reaching key African-American and Hispanic customers in cities such as Chicago and Miami.

We promoted 566 store managers and 22 district managers in 2002

We promote from within. Anyone we hire, from a high school student part-timer to a college graduate career seeker, is a potential Walgreen store manager, district manager, vice president or even CEO. In the past, retail as a career seemed less glamorous to college graduates than, let's say, working for the dot-coms. But times have changed – Walgreens is suddenly "in." Stability and ethics have taken on new importance. Forty-four percent of the students in our 2001 management intern program accepted permanent positions. Overall, the number of college graduates we've hired has tripled in the past four years. We'll continue our strong recruitment efforts in 2003, when we'll need 620 new store managers and 28 new district managers.

The Davis family of Barrington, Illinois, are frequent shoppers in our Hoffman Estates store, which features Walgreens newest prototype pharmacy. We'll roll out this updated design in new stores beginning this year. Not only is it more inviting for patients, but behind the counter, it's more efficient for our pharmacy staffs.

Walgreens financial position has never been stronger. We're generating strong cash flow from operations; we have virtually no debt; we have more than $400 million in the bank and nearly $3 billion in owned real estate.

Our new multi-language labels give patients the option of having their prescription directions printed in Chinese, English, French, Polish, Portuguese, Russian, Spanish or Vietnamese. We're the first pharmacy to offer this service, which received a 2002 Chicago Innovation Award.

We operate stores in the neighborhoods of 127 million Americans

We build stores that blend with the architecture, landscaping and environment of their communities. Designed with our customers' safety in mind, stores are well-lit inside and out and usually have parking in front to allow greater visibility. Our community outreach efforts – from local charity drives to disaster relief to inner city welfare-to-work training programs – are numerous. On the corporate level, last year Walgreens donated more than $3 million to charities and $1.9 million to educational institutions, primarily pharmacy schools and grade school tutoring programs. We're also a major national fundraiser for the Juvenile Diabetes Research Foundation, the American Heart Association, the American Cancer Society and United Way.

We focus on customers, employees, shareholders – in short, on people

Our mission is clear...and mirrors our basic principles. We will develop people who treat customers – and each other – with respect and dignity. We have a test that's been passed down from generation to generation of Walgreen employees. In 1956, it was adopted from Rotary International by Charles R. Walgreen Jr., our founder's son and the company's second CEO. The words guide employees to consider four questions when making decisions about what they think, say or do:

Is it the truth?

Is it fair to all concerned?

Will it build goodwill and better friendship?

Will it be beneficial to all concerned?

That's our "Four Way Test," hanging in almost 4,000 stores, and more relevant today than ever.

Eleven-Year Summary of Selected Consolidated Financial Data

Walgreen Co. and Subsidiaries (Dollars in Millions, except per share data)

Fiscal Year		2002	2001	2000
Net Sales		**$28,681.1**	$24,623.0	$21,206.9
Costs and Deductions	Cost of sales	**21,076.1**	18,048.9	15,465.9
	Selling, occupancy and administration	**5,980.8**	5,175.8	4,516.9
	Other (income) expense *(1)*	**(13.1)**	(24.4)	(39.2)
	Total Costs and Deductions	**27,043.8**	23,200.3	19,943.6
Earnings	Earnings before income tax provision and cumulative effect of accounting changes	**1,637.3**	1,422.7	1,263.3
	Income tax provision	**618.1**	537.1	486.4
	Earnings before cumulative effect of accounting changes	**1,019.2**	885.6	776.9
	Cumulative effect of accounting changes *(2)*	—	—	—
	Net Earnings	**$ 1,019.2**	$ 885.6	$ 776.9
Per Common Share *(3)*	Net earnings *(2)*			
	Basic	**$ 1.00**	$ .87	$ .77
	Diluted	**.99**	.86	.76
	Dividends declared	**.15**	.14	.14
	Book value	**6.08**	5.11	4.19
Non-Current Liabilities	Long-term debt	**$ 11.2**	$ 20.8	$ 18.2
	Deferred income taxes	**176.5**	137.0	101.6
	Other non-current liabilities	**505.7**	457.2	446.2
Assets and Equity	Total assets	**$ 9,878.8**	$ 8,833.8	$ 7,103.7
	Shareholders' equity	**6,230.2**	5,207.2	4,234.0
	Return on average shareholders' equity	**17.8%**	18.8%	20.1%
Drugstore Units	Year-end: Units *(4)*	**3,883**	3,520	3,165

(1) Fiscal 2002, 2001 and 2000 include pre-tax income of $6.2 million ($.004 per share), $22.1 million ($.01 per share) and $33.5 million ($.02 per share), respectively, from the partial payments of the brand name prescription drugs litigation settlement. Fiscal 1998 includes a pre-tax gain of $37.4 million ($.02 per share) from the sale of the company's long-term care pharmacy business.

(2) Fiscal 1998 includes the after-tax $26.4 million ($.03 per share) charge from the cumulative effect of accounting change for system development costs. Fiscal 1993 includes the after-tax $23.6 million ($.02 per share) costs from the cumulative effect of accounting changes for postretirement benefits and income taxes.

(3) Per share data have been adjusted for two-for-one stock splits in 1999, 1997 and 1995.

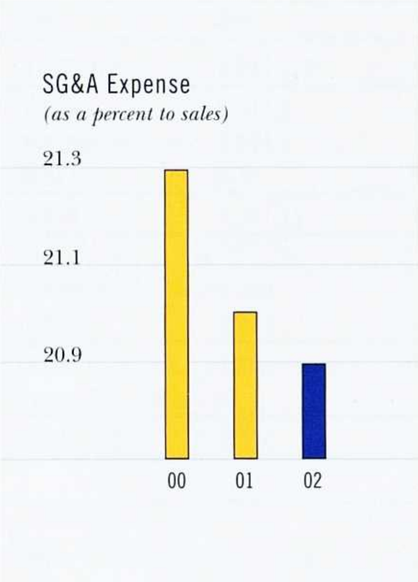
(4) Units include mail service facilities.

	1999	1998	1997	1996	1995	1994	1993	1992
	$17,838.8	$15,306.6	$13,363.0	$11,778.4	$10,395.1	$9,235.0	$8,294.8	$7,475.0
	12,978.6	11,139.4	9,681.8	8,514.9	7,482.3	6,614.4	5,959.0	5,377.7
	3,844.8	3,332.0	2,972.5	2,659.5	2,392.7	2,164.9	1,929.6	1,738.8
	(11.9)	(41.9)	(3.9)	(2.9)	(3.6)	(2.7)	6.5	5.5
	16,811.5	14,429.5	12,650.4	11,171.5	9,871.4	8,776.6	7,895.1	7,122.0
	1,027.3	877.1	712.6	606.9	523.7	458.4	399.7	353.0
	403.2	339.9	276.1	235.2	202.9	176.5	154.4	132.4
	624.1	537.2	436.5	371.7	320.8	281.9	245.3	220.6
	—	(26.4)	—	—	—	—	(23.6)	—
	$ 624.1	$ 510.8	$ 436.5	$ 371.7	$ 320.8	$ 281.9	$ 221.7	$ 220.6
	$ .62	$ .51	$ .44	$ .38	$ .33	$ .29	$ .23	$ .22
	.62	.51	.44	.37	.32	.29	.23	.22
	.13	.13	.12	.11	.11	.09	.08	.07
	3.47	2.86	2.40	2.08	1.82	1.60	1.40	1.25
	$ 18.0	$ 13.6	$ 3.3	$ 3.4	$ 2.4	$ 1.8	$ 6.2	$ 18.7
	74.8	89.1	112.8	145.2	142.3	137.7	144.2	171.8
	405.8	369.9	279.2	259.9	237.6	213.8	176.2	103.8
	$ 5,906.7	$ 4,901.6	$ 4,207.1	$ 3,633.6	$ 3,252.6	$2,872.8	$2,506.0	$2,346.9
	3,484.3	2,848.9	2,373.3	2,043.1	1,792.6	1,573.6	1,378.8	1,233.3
	19.7%	19.6%	19.8%	19.4%	19.1%	19.1%	18.8%	19.1%
	2,821	2,549	2,358	2,193	2,085	1,968	1,836	1,736

Management's Discussion and Analysis of Results of Operations and Financial Condition

Results of Operations

Fiscal 2002 was the 28th consecutive year of record sales and earnings. Net earnings were $1.019 billion or $.99 per share (diluted), an increase of 15.1% from last year's earnings of $885.6 million or $.86 per share. Included in this year's results was a $6.2 million pre-tax gain ($.004 per share) for a partial payment of the company's share of the brand name prescription drugs antitrust litigation settlement. Last year's results included a $22.1 million ($.01 per share) comparable payment. Excluding these gains, fiscal year earnings rose 16.5%.



Total net sales increased by 16.5% to $28.7 billion in fiscal 2002 compared to increases of 16.1% in 2001 and 18.9% in 2000. Drugstore sales increases resulted from sales gains in existing stores and added sales from new stores, each of which include an indeterminate amount of market-driven price changes. Comparable drugstore (those open at least one year) sales were up 10.5% in 2002, 10.5% in 2001 and 11.7% in 2000. New store openings accounted for 9.6% of the sales gains in 2002, 11.3% in 2001 and 10.6% in 2000. The company operated 3,883 drugstores as of August 31, 2002, compared to 3,520 a year earlier.

Prescription sales increased 21.2% in 2002, 20.9% in 2001 and 25.3% in 2000. Comparable drugstore prescription sales were up 16.3% in 2002, 17.6% in 2001 and 19.0% in 2000. Prescription sales were 59.8% of total sales for fiscal 2002 compared to 57.5% in 2001 and 55.2% in 2000. Third party sales, where reimbursement is received from managed care organizations and government and private insurance, were 89.8% of pharmacy sales in 2002, 88.4% in 2001 and 86.1% in 2000. Pharmacy sales trends are expected to continue primarily because of increased penetration in existing markets, availability of new drugs and demographic changes such as the aging population.

Gross margins as a percent of total sales were 26.5% in 2002, 26.7% in 2001 and 27.1% in 2000. The decrease in gross margin was caused by a number of factors. Non-pharmacy margins declined as a result of more aggressive advertising and in-store promotions. Although prescription margins increased, due in part to the shift to more generic medications, the trend in sales mix continued toward pharmacy, which carries lower margins than the rest of the store. Within the pharmacy, third party sales, which typically have lower profit margins than cash prescriptions, continue to become a larger portion of prescription sales.

The company uses the last-in, first-out (LIFO) method of inventory valuation. The effective LIFO inflation rates were 1.42% in 2002, 1.93% in 2001 and 1.36% in 2000, which resulted in charges to cost of sales of $55.9 million in 2002, $62.8 million in 2001 and $38.8 million in 2000. Inflation on prescription inventory was 4.3% in 2002, 4.9% in 2001 and 3.5% in 2000.

Selling, occupancy and administration expenses were 20.9% of sales in fiscal 2002, 21.0% of sales in fiscal 2001 and 21.3% of sales in fiscal 2000. The decrease in fiscal 2002, as a percent to sales, was caused by lower store direct expenses, which were partially offset by higher occupancy costs. The decline in fiscal 2001 resulted from lower advertising and headquarters expense. Fixed costs continue to be spread over a larger base of stores.

Interest income net of interest expense increased in 2002 principally due to higher investment levels. Average net investment levels were approximately $162 million in 2002, $31 million in 2001 and $64 million in 2000.

The fiscal 2002 and 2001 effective income tax rates were 37.75% compared to 38.50% in 2000. The decrease in rates compared to 2000 was principally the result of lower state income taxes and the settlement of various IRS matters.

Critical Accounting Policies

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and include amounts based on management's prudent judgments and estimates. Actual results may differ from these estimates. Management believes that any reasonable deviation from those judgments and estimates would not have a material impact on the company's consolidated financial position or results of operations. However, to the extent that the estimates used differ from actual results, adjustments to the statement of earnings and corresponding balance sheet accounts would be necessary. Some of the more significant estimates include liability for closed locations, liability for insurance reserves, vendor allowances, allowance for doubtful accounts, and cost of sales. The company uses the following techniques to determine estimates:

Liability for closed locations – The present value of future rent obligations and other related costs to the first lease option date or estimated sublease date.

Liability for insurance reserves – Incurred losses by policy year extended by historical growth factors to derive ultimate losses.

Vendor allowances – Vendor allowances are principally received as a result of meeting defined purchase levels or promoting vendors' products. Those received as a result of purchase levels are accrued as a reduction of merchandise purchase prices over the incentive period based on estimates. Those received for promoting vendors' products are offset against advertising expense and result in a reduction of selling, occupancy and administration expense.

Allowance for doubtful accounts – Based on both specific receivables and historic write-off percents.

Cost of sales – Based primarily on point-of-sale scanning information with an estimate for shrinkage and adjusted based on periodic inventories.

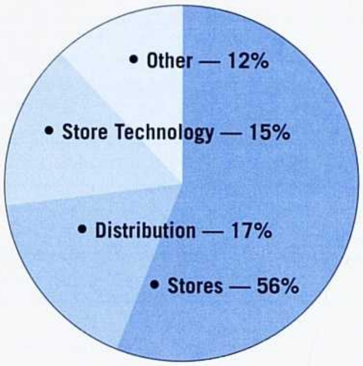
Financial Condition

Cash and cash equivalents were $449.9 million at August 31, 2002, compared to $16.9 million at August 31, 2001. Short-term investment objectives are to minimize risk, maintain liquidity and maximize after-tax yields. To attain these objectives, investment limits are placed on the amount, type and issuer of securities. Investments are principally in top-tier money market funds, tax exempt bonds and commercial paper.

Net cash provided by operating activities for fiscal 2002 was $1.5 billion compared to $719.2 million a year ago. The change between periods was principally due to tighter control over inventory levels. The company's profitability is the principal source for providing funds for expansion and remodeling programs, dividends to shareholders and funding for various technological improvements.

Capital Expenditures
Fiscal Year 2003

We plan to spend $1.021 billion.



Net cash used for investing activities was $551.9 million in fiscal 2002 and $1.1 billion in 2001. Additions to property and equipment were $934.4 million compared to $1.2 billion last year. During the year, 471 new or relocated drugstores were opened. This compares to 474 new or relocated drugstores opened in the same period last year. New stores are owned or leased. There were 150 owned locations opened during the year or under construction at August 31, 2002, versus 245 for the same period last year. During the year, two new distribution centers opened, one in West Palm Beach (Jupiter), Florida, and the other in the Dallas metropolitan area.

During fiscal 2002, the company entered into two sale-leaseback transactions. These transactions involved 86 drugstore locations and resulted in proceeds of $302 million.

Capital expenditures for fiscal 2003 are expected to exceed $1 billion. The company expects to open more than 450 new stores in fiscal 2003 and have a total of 7,000 drugstores by the year 2010. The company is continuing to relocate stores to more convenient and profitable freestanding locations. In addition to new stores, a significant portion of the expenditures will be made for technology and distribution centers. A new distribution center is under construction in Ohio. Another is planned in Southern California.

Net cash used for financing activities was $488.9 million compared to $419.4 million provided a year ago. The change was principally due to payments of short-term borrowings this year versus proceeds from borrowings last year. There were no short-term borrowings at August 31, 2002, compared to $440.7 million at August 31, 2001. Borrowings were needed during each year to support working capital needs and store and distribution center growth, which included purchases of new store property, equipment and inventory. At August 31, 2002, the company had a syndicated bank line of credit facility of $600 million to support the company's short-term commercial paper program. On July 2, 2002, the company deregistered the remaining $100 million of unissued authorized debt securities, previously filed with the Securities and Exchange Commission.

Recent Accounting Pronouncements

During the first quarter of 2002, the company adopted Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." Under this pronouncement, goodwill is no longer amortized but periodically tested for impairment. No significant impact to the consolidated financial position or results of operations occurred as a result of adopting this standard.

The adoption of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," resulted in additional disclosures which can be found under "Impaired Assets and Liabilities for Store Closings" in the Summary of Major Accounting Policies.

During the fourth quarter of 2002, the company early adopted SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activity." As a result, beginning in June 2002, the remaining lease obligations for closed locations were no longer recognized at the time management made the decision to close the location but were recognized at the time of closing. The adoption of this pronouncement did not have a material impact in the fourth quarter and is not expected to have a material impact on the company's consolidated financial position or results of operations in the future.

Cautionary Note Regarding Forward-Looking Statements

Certain statements and projections of future results made in this report constitute forward-looking information that is based on current market, competitive and regulatory expectations that involve risks and uncertainties. Those risks and uncertainties include changes in economic conditions generally or in the markets served by the company; consumer preferences and spending patterns; changes in state or federal legislation or regulations; the availability and cost of real estate and construction; competition; and risks of new business areas. Please see Walgreen Co.'s Form 10-K for the period ended August 31, 2002, for a discussion of certain other important factors as they relate to forward-looking statements. Actual results could differ materially.

Consolidated Statements of Earnings and Shareholders' Equity

Walgreen Co. and Subsidiaries for the Years Ended August 31, 2002, 2001 and 2000 (Dollars in Millions, except per share data)

	Earnings	2002	2001	2000
Net Sales		**$28,681.1**	$24,623.0	$21,206.9
Costs and Deductions	Cost of sales	**21,076.1**	18,048.9	15,465.9
	Selling, occupancy and administration	**5,980.8**	5,175.8	4,516.9
		27,056.9	23,224.7	19,982.8
Other (Income) Expense	Interest income	**(6.9)**	(5.4)	(6.1)
	Interest expense	**—**	3.1	.4
	Other income	**(6.2)**	(22.1)	(33.5)
		(13.1)	(24.4)	(39.2)
Earnings	Earnings before income tax provision	**1,637.3**	1,422.7	1,263.3
	Income tax provision	**618.1**	537.1	486.4
	Net Earnings	**$ 1,019.2**	$ 885.6	$ 776.9
Net Earnings per Common Share	Basic	**$ 1.00**	$ .87	$ .77
	Diluted	**.99**	.86	.76
	Average shares outstanding	**1,022,554,460**	1,016,197,785	1,007,393,572
	Dilutive effect of stock options	**9,716,486**	12,748,828	12,495,236
	Average shares outstanding assuming dilution	**1,032,270,946**	1,028,946,613	1,019,888,808

	Common Stock		Paid-in	Retained
Shareholders' Equity	Shares	Amount	Capital	Earnings
Balance, August 31, 1999	1,004,022,258	$78.4	$258.9	$3,147.0
Net earnings	—	—	—	776.9
Cash dividends declared ($.135 per share)	—	—	—	(136.1)
Employee stock purchase and option plans	6,796,632	.6	108.3	—
Balance, August 31, 2000	1,010,818,890	79.0	367.2	3,787.8
Net earnings	—	—	—	885.6
Cash dividends declared ($.14 per share)	—	—	—	(142.5)
Employee stock purchase and option plans	8,606,162	.6	229.5	—
Balance, August 31, 2001	**1,019,425,052**	**79.6**	**596.7**	**4,530.9**
Net earnings	**—**	**—**	**—**	**1,019.2**
Cash dividends declared ($.145 per share)	**—**	**—**	**—**	**(148.4)**
Employee stock purchase and option plans	**5,483,224**	**.5**	**151.7**	**—**
Balance, August 31, 2002	**1,024,908,276**	**$80.1**	**$748.4**	**$5,401.7**

The accompanying Summary of Major Accounting Policies and the Notes to Consolidated Financial Statements are integral parts of these statements.

Consolidated Balance Sheets

Walgreen Co. and Subsidiaries at August 31, 2002 and 2001 (Dollars in Millions)

	Assets	2002	2001
Current Assets	Cash and cash equivalents	**$ 449.9**	$ 16.9
	Accounts receivable, net	**954.8**	798.3
	Inventories	**3,645.2**	3,482.4
	Other current assets	**116.6**	96.3
	Total Current Assets	**5,166.5**	4,393.9
Non-Current Assets	Property and equipment, at cost, less accumulated depreciation and amortization	**4,591.4**	4,345.3
	Other non-current assets	**120.9**	94.6
	Total Assets	**$9,878.8**	$8,833.8

	Liabilities and Shareholders' Equity	2002	2001
Current Liabilities	Short-term borrowings	**$ —**	$ 440.7
	Trade accounts payable	**1,836.4**	1,546.8
	Accrued expenses and other liabilities	**1,017.9**	937.5
	Income taxes	**100.9**	86.6
	Total Current Liabilities	**2,955.2**	3,011.6
Non-Current Liabilities	Deferred income taxes	**176.5**	137.0
	Other non-current liabilities	**516.9**	478.0
	Total Non-Current Liabilities	**693.4**	615.0
Shareholders' Equity	Preferred stock, $.0625 par value; authorized 32 million shares; none issued	—	—
	Common stock, $.078125 par value; authorized 3.2 billion shares; issued and outstanding 1,024,908,276 in 2002 and 1,019,425,052 in 2001	**80.1**	79.6
	Paid-in capital	**748.4**	596.7
	Retained earnings	**5,401.7**	4,530.9
	Total Shareholders' Equity	**6,230.2**	5,207.2
	Total Liabilities and Shareholders' Equity	**$9,878.8**	$8,833.8

The accompanying Summary of Major Accounting Policies and the Notes to Consolidated Financial Statements are integral parts of these statements.

Consolidated Statements of Cash Flows

Walgreen Co. and Subsidiaries for the Years Ended August 31, 2002, 2001 and 2000 (In Millions)

Fiscal Year		2002	2001	2000
Cash Flows from Operating Activities	Net earnings	**$1,019.2**	$ 885.6	$ 776.9
	Adjustments to reconcile net earnings to net cash provided by operating activities –			
	Depreciation and amortization	**307.3**	269.2	230.1
	Deferred income taxes	**22.9**	46.9	21.0
	Income tax savings from employee stock plans	**56.8**	67.3	38.5
	Other	**(8.6)**	2.1	13.6
	Changes in operating assets and liabilities –			
	Inventories	**(162.8)**	(651.6)	(368.2)
	Trade accounts payable	**289.6**	182.8	233.7
	Accounts receivable, net	**(170.6)**	(177.3)	(135.4)
	Accrued expenses and other liabilities	**75.0**	82.2	101.2
	Income taxes	**14.3**	(5.4)	28.6
	Other	**30.7**	17.4	31.7
	Net cash provided by operating activities	**1,473.8**	719.2	971.7
Cash Flows from Investing Activities	Additions to property and equipment	**(934.4)**	(1,237.0)	(1,119.1)
	Disposition of property and equipment	**368.1**	43.5	22.9
	Net proceeds from corporate-owned life insurance	**14.4**	59.0	58.8
	Net cash used for investing activities	**(551.9)**	(1,134.5)	(1,037.4)
Cash Flows from Financing Activities	(Payments of) proceeds from short-term borrowings	**(440.7)**	440.7	—
	Cash dividends paid	**(147.0)**	(140.9)	(134.6)
	Proceeds from employee stock plans	**111.1**	126.1	79.2
	Other	**(12.3)**	(6.5)	(7.9)
	Net cash (used for) provided by financing activities	**(488.9)**	419.4	(63.3)
Changes in Cash and Cash Equivalents	Net increase (decrease) in cash and cash equivalents	**433.0**	4.1	(129.0)
	Cash and cash equivalents at beginning of year	**16.9**	12.8	141.8
	Cash and cash equivalents at end of year	**$ 449.9**	$ 16.9	$ 12.8

The accompanying Summary of Major Accounting Policies and the Notes to Consolidated Financial Statements are integral parts of these statements.

Summary of Major Accounting Policies

Description of Business

The company is principally in the retail drugstore business and its operations are within one reportable segment. Stores are located in 43 states and Puerto Rico. At August 31, 2002, there were 3,880 retail drugstores and 3 mail service facilities. Prescription sales were 59.8% of total sales for fiscal 2002 compared to 57.5% in 2001 and 55.2% in 2000.

Basis of Presentation

The consolidated statements include the accounts of the company and its subsidiaries. All significant intercompany transactions have been eliminated. The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and include amounts based on management's prudent judgments and estimates. While actual results may differ from these estimates, management does not expect the differences, if any, to have a material effect on the consolidated financial statements.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and all highly liquid investments with an original maturity of three months or less. The company's cash management policy provides for the bank disbursement accounts to be reimbursed on a daily basis. Checks issued but not presented to the banks for payment of $317 million and $233 million at August 31, 2002 and 2001, respectively, are included in cash and cash equivalents as reductions of other cash balances.

Financial Instruments

The company had approximately $37 million and $53 million of outstanding letters of credit at August 31, 2002 and 2001, respectively, which guaranteed foreign trade purchases. Additional outstanding letters of credit of $84 million and $71 million at August 31, 2002 and 2001, respectively, guaranteed payments of casualty claims. The casualty claim letters of credit are annually renewable and will remain in place until the casualty claims are paid in full. The company pays a nominal facility fee to the financing bank to keep this line of credit facility active. The company also had purchase commitments of approximately $70 million and $162 million at August 31, 2002 and 2001, respectively, related to the purchase of store locations. There were no investments in derivative financial instruments during fiscal 2002 and 2001.

Inventories

Inventories are valued on a lower of last-in, first-out (LIFO) cost or market basis. At August 31, 2002 and 2001, inventories would have been greater by $693.5 million and $637.6 million, respectively, if they had been valued on a lower of first-in, first-out (FIFO) cost or market basis. Included in inventory are product cost and in-bound freight. Cost of sales is primarily derived based upon point-of-sale scanning information with an estimate for shrinkage and adjusted based on periodic inventories. At August 31, 2001 and 2000, the company experienced lower inventory levels in certain LIFO pools compared with the previous year-end inventory levels which caused a liquidation of LIFO inventories which were carried at lower costs prevailing in prior years. The effect of this liquidation was a reduction in cost of sales of $4.2 million in fiscal 2001 and $3.1 million in fiscal 2000.

Vendor Allowances

The company receives vendor allowances principally as a result of meeting defined purchase levels or promoting vendors' products. Those received as a result of purchase levels are accrued as a reduction of merchandise purchase price over the incentive period and result in a reduction of cost of sales. Those received for promoting vendors' products are offset against advertising expense and result in a reduction of selling, occupancy and administration expense.

Property and Equipment

Depreciation is provided on a straight-line basis over the estimated useful lives of owned assets. Leasehold improvements and leased properties under capital leases are amortized over the estimated physical life of the property or over the term of the lease, whichever is shorter. Estimated useful lives range from 12½ to 39 years for land improvements, buildings and building improvements and 5 to 12½ years for equipment. Major repairs, which extend the useful life of an asset, are capitalized in the property and equipment accounts. Routine maintenance and repairs are charged against earnings. The composite method of depreciation is used for equipment; therefore, gains and losses on retirement or other disposition of such assets are included in earnings only when an operating location is closed, completely remodeled or impaired. Fully depreciated property and equipment are removed from the cost and related accumulated depreciation and amortization accounts.

Property and equipment consists of *(In Millions)*:

	2002	2001
Land and land improvements		
Owned stores	**$1,080.4**	$1,109.2
Distribution centers	**57.8**	38.7
Other locations	**9.3**	18.6
Buildings and building improvements		
Owned stores	**1,185.9**	1,156.6
Leased stores (leasehold improvements only)	**425.6**	411.1
Distribution centers	**364.9**	309.1
Other locations	**58.2**	70.6
Equipment		
Stores	**1,609.6**	1,440.3
Distribution centers	**499.4**	350.2
Other locations	**464.9**	462.7
Capitalized system development costs	**144.1**	117.4
Capital lease properties	**17.8**	18.8
	5,917.9	5,503.3
Less: accumulated depreciation and amortization	**1,326.5**	1,158.0
	$4,591.4	$4,345.3

The company capitalizes application stage development costs for significant internally developed software projects, including "SIMS Plus," an inventory management system, and "Basic Department Management," a marketing system. These costs are amortized over a five-year period. Amortization of these costs was $19.5 million in 2002, $17.3 million in 2001 and $13.1 million in 2000. Unamortized costs as of August 31, 2002 and 2001, were $73.2 million and $66.1 million, respectively.

Revenue Recognition

For all sales other than third party pharmacy sales, the company recognizes revenue at the time of the sale. For third party sales, revenue is recognized at the time the prescription is filled, adjusted by an estimate for those that will be unclaimed by customers. Customer returns are immaterial.

Impaired Assets and Liabilities for Store Closings

The company tests long-lived assets for impairment whenever events or circumstances indicate. Store locations that have been open at least five years are periodically reviewed for impairment indicators. Once identified, the amount of the impairment is computed by comparing the carrying value of the assets to the fair value, which is based on the discounted estimated future cash flows. Included in selling, occupancy and administration expense were impairment charges of $8.4 million in 2002, $9.7 million in 2001, and $15.1 million in 2000.

Summary of Major Accounting Policies

(continued)

During the fourth quarter of fiscal 2002, the company implemented SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." Since implementation, the present value of expected future lease costs are charged against earnings when the location is closed. Prior to this, the liability was recognized at the time management made the decision to relocate or close the store.

Insurance

The company obtains insurance coverage for catastrophic exposures as well as those risks required to be insured by law. It is the company's policy to retain a significant portion of certain losses related to worker's compensation, property losses, business interruptions relating from such losses and comprehensive general, pharmacist and vehicle liability. Provisions for these losses are recorded based upon the company's estimates for claims incurred. The provisions are estimated in part by considering historical claims experience, demographic factors and other actuarial assumptions.

Pre-Opening Expenses

Non-capital expenditures incurred prior to the opening of a new or remodeled store are charged against earnings as incurred.

Advertising Costs

Advertising costs, which are reduced by the portion funded by vendors, are expensed as incurred. Net advertising expenses which are included in selling, occupancy and administration expense were $64.5 million in 2002, $54.1 million in 2001 and $76.7 million in 2000.

Stock-Based Compensation Plans

As permitted by SFAS No. 123, the company applies Accounting Principles Board (APB) Opinion No. 25 and related interpretations in accounting for its plans. Under APB 25, compensation expense is recognized for stock option grants if the exercise price is below the fair value of the underlying stock at the date of grant. The company complies with the disclosure provisions of SFAS No. 123, which requires presentation of pro forma information applying the fair-value based method of accounting.

Income Taxes

The company provides for federal and state income taxes on items included in the Consolidated Statements of Earnings regardless of the period when such taxes are payable. Deferred taxes are recognized for temporary differences between financial and income tax reporting based on enacted tax laws and rates.

Earnings Per Share

In fiscal year 2002 and 2001, the diluted earnings per share calculation excluded certain stock options, because the options' exercise price was greater than the average market price of the common shares for the year. If they were included, anti-dilution would have resulted. At August 31, 2002 and August 31, 2001, options to purchase 3,186,227 and 3,316,906 common shares granted at a price ranging from $35.90 to $45.625 and $36.875 to $45.625 per share were excluded from the fiscal year 2002 and 2001 calculations, respectively.

Notes to Consolidated Financial Statements

Interest Expense

The company capitalized $8.5 million, $15.6 million and $4.0 million of interest expense as part of significant construction projects during fiscal 2002, 2001 and 2000, respectively. Interest paid, net of amounts capitalized, was $.3 million in 2002, $3.4 million in 2001 and $.2 million in 2000.

Other Income

In fiscal 2002, 2001 and 2000, the company received partial payments of the brand name prescription drug antitrust litigation settlement for pre-tax income of $6.2 million ($.004 per share), $22.1 million ($.01 per share) and $33.5 million ($.02 per share), respectively. These payments, which are now concluded, were a result of a pharmacy class action against drug manufacturers, which resulted in a $700 million settlement for all recipients.

Leases

Although some locations are owned, the company generally operates in leased premises. Original non-cancelable lease terms typically are 20-25 years and may contain escalation clauses, along with options that permit renewals for additional periods. The total amount of the minimum rent is expensed on a straight-line basis over the term of the lease. In addition to minimum fixed rentals, most leases provide for contingent rentals based upon sales.

Minimum rental commitments at August 31, 2002, under all leases having an initial or remaining non-cancelable term of more than one year are shown below *(In Millions)*:

2003	$ 897.9
2004	943.3
2005	933.4
2006	914.0
2007	895.0
Later	10,659.2
Total minimum lease payments	$15,242.8

The above minimum lease payments include minimum rental commitments related to capital leases amounting to $10.7 million at August 31, 2002. Total minimum lease payments have not been reduced by minimum sublease rentals of approximately $49.1 million on leases due in the future under non-cancelable subleases.

During fiscal 2002, the company entered into two sale-leaseback transactions. The properties were sold at net book value and resulted in proceeds of $302 million. The related leases are accounted for as operating leases.

Rental expense was as follows *(In Millions)*:

	2002	2001	2000
Minimum rentals	**$873.0**	$730.1	$605.7
Contingent rentals	**23.6**	26.2	31.4
Less: Sublease rental income	**(11.1)**	(10.4)	(7.6)
	$885.5	$745.9	$629.5

Notes to Consolidated Financial Statements

(continued)

Income Taxes

The provision for income taxes consists of the following *(In Millions)*:

	2002	2001	2000
Current provision –			
Federal	**$510.2**	$417.1	$400.9
State	**85.0**	73.1	64.5
	595.2	490.2	465.4
Deferred provision –			
Federal	**24.0**	47.1	17.7
State	**(1.1)**	(.2)	3.3
	22.9	46.9	21.0
	$618.1	$537.1	$486.4

The deferred tax assets and liabilities included in the Consolidated Balance Sheets consist of the following *(In Millions)*:

	2002	2001
Deferred tax assets –		
Employee benefit plans	**$106.2**	$146.3
Accrued rent	**56.5**	52.7
Insurance	**82.7**	68.3
Inventory	**35.6**	28.1
Other	**95.3**	39.0
	376.3	334.4
Deferred tax liabilities –		
Accelerated depreciation	**401.9**	341.7
Inventory	**98.9**	92.9
Other	**14.7**	16.1
	515.5	450.7
Net deferred tax liabilities	**$139.2**	$116.3

Income taxes paid were $528.0 million, $432.1 million and $398.4 million during the fiscal years ended August 31, 2002, 2001 and 2000, respectively. The difference between the statutory income tax rate and the effective tax rate is principally due to state income tax provisions.

Short-Term Borrowings

The company obtained funds through the placement of commercial paper, as follows *(Dollars in Millions):*

	2002	2001	2000
Average outstanding during the year	**$250.2**	$304.9	$14.0
Largest month-end balance	**689.0**	461.2	98.0
	(Nov)	(Nov)	(Nov)
Weighted-average interest rate	**2.3%**	5.2%	5.9%

At August 31, 2002, the company had a syndicated bank line of credit facility of $600 million to support the company's short-term commercial paper program. On July 2, 2002, the company deregistered the remaining $100 million of unissued authorized debt securities, previously filed with the Securities and Exchange Commission.

Contingencies

The company is involved in various legal proceedings incidental to the normal course of business. Company management is of the opinion, based upon the advice of General Counsel, that although the outcome of such litigation cannot be forecast with certainty, the final disposition should not have a material adverse effect on the company's consolidated financial position or results of operations.

Capital Stock

The company's common stock is subject to a Rights Agreement under which each share has attached to it a Right to purchase one one-hundredth of a share of a new series of Preferred Stock, at a price of $37.50 per Right. In the event an entity acquires or attempts to acquire 15% of the then outstanding shares, each Right, except those of an acquiring entity, would entitle the holder to purchase a number of shares of common stock pursuant to a formula contained in the Agreement. These non-voting Rights will expire on August 21, 2006, but may be redeemed at a price of $.0025 per Right at any time prior to a public announcement that the above event has occurred.

As of August 31, 2002, 102,738,392 shares of common stock were reserved for future stock issuances under the company's various employee benefit plans. Preferred stock of 10,249,083 shares has been reserved for issuance upon the exercise of Preferred Share Purchase Rights.

Stock Compensation Plans

The Walgreen Co. Executive Stock Option Plan provides to key employees the granting of options to purchase company common stock over a 10-year period, at a price not less than the fair market value on the date of the grant. Under this Plan, options may be granted until October 9, 2006, for an aggregate of 38,400,000 shares of common stock of the company. Compensation expense related to the plan was less than $1 million in fiscal 2002, $1.4 million in fiscal 2001 and less than $1 million in fiscal 2000. The options granted during fiscal 2002, 2001 and 2000 have a minimum three-year holding period.

The Walgreen Co. Stock Purchase/Option Plan (Share Walgreens) provides for the granting of options to purchase company common stock over a period of 10 years to eligible employees upon the purchase of company shares subject to certain restrictions. Under the terms of the Plan, the option price cannot be less than 85% of the fair market value at the date of grant. Compensation expense related to the Plan was $10.9 million in fiscal 2002, $9.6 million in fiscal 2001 and less than $1 million in fiscal 2000. Options may be granted under this Plan until September 30, 2012, for an aggregate of 42,000,000 shares of common stock of the company. The options granted during fiscal 2002, 2001 and 2000 have a two-year holding period.

The Walgreen Co. Restricted Performance Share Plan provides for the granting of up to 32,000,000 shares of common stock to certain key employees, subject to restrictions as to continuous employment except in the case of death, normal retirement or total and permanent disability. Restrictions generally lapse over a four-year period from the date of grant. Compensation expense is recognized in the year of grant. Compensation expense related to the Plan was $5.4 million in fiscal 2002, $3.6 million in fiscal 2001 and $5.1 million in fiscal 2000. The number of shares granted was 81,416 in 2002, 61,136 in 2001 and 84,746 in 2000.

Under the Walgreen Co. 1982 Employees Stock Purchase Plan, eligible employees may purchase company stock at 90% of the fair market value at the date of purchase. Employees may purchase shares through cash purchases, loans or payroll deductions up to certain limits. The aggregate number of shares for which all participants have the right to purchase under this Plan is 64,000,000.

On May 11, 2000, substantially all employees, in conjunction with opening the company's 3,000th store, were granted a stock option award to purchase from 75 to 500 shares, based on years of service. The stock option award, issued at fair market value on the date of the grant, represents a total of 14,859,275 shares of Walgreen Co. common stock. The options vest after three years and are exercisable up to 10 years after the grant date.

The Walgreen Co. Broad Based Employee Stock Option Plan provides for the granting of options to eligible employees to purchase common stock over a 10-year period, at a price not less than the fair market value on the date of the grant, in connection with the achievement of store opening milestones. Options may be granted for an aggregate of 15,000,000 shares of company common stock until all options have either been exercised or have expired. There is a holding period of three years for options granted under this plan.

Notes to Consolidated Financial Statements

(continued)

A summary of information relative to the company's stock option plans follows:

	Options Outstanding		Options Exercisable	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
August 31, 1999	28,479,238	$ 7.89		
Granted	17,040,383	28.43		
Exercised	(5,055,842)	5.59		
Canceled/Forfeited	(1,086,118)	27.39		
August 31, 2000	39,377,661	$16.55	19,267,211	$6.45
Granted	5,354,388	36.68		
Exercised	(5,532,895)	5.75		
Canceled/Forfeited	(2,943,030)	28.02		
August 31, 2001	**36,256,124**	**$20.24**	**14,824,227**	**$7.40**
Granted	**2,886,365**	**34.05**		
Exercised	**(3,525,955)**	**7.28**		
Canceled/Forfeited	**(1,315,499)**	**30.32**		
August 31, 2002	**34,301,035**	**$22.35**	**13,786,657**	**$9.71**

Net options granted as a percentage of outstanding shares at fiscal year-end were 0.2% in fiscal 2002, 0.2% in fiscal 2001 and 1.6% in fiscal 2000.

The following table summarizes information concerning currently outstanding and exercisable options:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 8/31/02	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 8/31/02	Weighted-Average Exercise Price
$ 4 to 14	11,511,707	3.13 yrs.	$ 7.64	11,511,707	$ 7.64
15 to 30	14,869,487	7.31	26.65	2,212,570	19.81
31 to 46	7,919,841	8.48	35.67	62,380	34.17
$ 4 to 46	34,301,035	6.18 yrs.	$22.35	13,786,657	$ 9.71

The company applies Accounting Principles Board (APB) Opinion No. 25 and related interpretations in accounting for its plans. Accordingly, no compensation expense has been recognized based on the fair value of its grants under these plans. Had compensation costs been determined consistent with the method of SFAS No. 123 for options granted in fiscal 2002, 2001 and 2000, pro forma net earnings and net earnings per common share would have been as follows *(In Millions, except per share data)*:

	2002	2001	2000
Net earnings			
As reported	**$1,019.2**	$885.6	$776.9
Pro forma	**958.7**	833.3	754.3
Net earnings per common share – Basic			
As reported	**1.00**	.87	.77
Pro forma	**.94**	.82	.75
Net earnings per common share – Diluted			
As reported	**.99**	.86	.76
Pro forma	**.93**	.81	.74

The weighted-average fair value and exercise price of options granted for fiscal 2002, 2001 and 2000 were as follows:

	2002	2001	2000
Granted at market price –			
Weighted-average fair value	**$13.60**	$14.28	$12.17
Weighted-average exercise price	**34.40**	32.88	28.44
Granted below market price –			
Weighted-average fair value	**11.86**	20.78	10.56
Weighted-average exercise price	**33.21**	38.78	24.12

The fair value of each option grant used in the pro forma net earnings and net earnings per share was determined using the Black-Scholes option pricing model with weighted-average assumptions used for grants in fiscal 2002, 2001 and 2000:

	2002	2001	2000
Risk-free interest rate	**4.56%**	6.16%	6.64%
Average life of option (years)	**7**	7	7
Volatility	**27.58%**	25.95%	25.86%
Dividend yield	**.22%**	.16%	.27%

Retirement Benefits

The principal retirement plan for employees is the Walgreen Profit-Sharing Retirement Trust to which both the company and the employees contribute. The company's contribution, which is determined annually at the discretion of the Board of Directors, has historically related to pre-tax income. The profit-sharing provision was $145.7 million in 2002, $126.6 million in 2001 and $112.4 million in 2000.

The company provides certain health and life insurance benefits for retired employees who meet eligibility requirements, including age and years of service. The costs of these benefits are accrued over the period earned. The company's postretirement health and life benefit plans currently are not funded.

Components of net periodic benefit costs *(In Millions)*:

	2002	2001	2000
Service cost	**$ 6.0**	$ 4.8	$ 4.7
Interest cost	**10.5**	8.7	7.7
Amortization of actuarial loss	**1.4**	.3	—
Amortization of prior service cost	**(0.4)**	—	—
Total postretirement benefit cost	**$17.5**	$13.8	$12.4

Change in benefit obligation *(In Millions)*:

	2002	2001
Benefit obligation at September 1	**$142.7**	$118.6
Service cost	**6.0**	4.8
Interest cost	**10.5**	8.7
Amendments	—	(7.1)
Actuarial loss	**72.6**	23.1
Benefit payments	**(6.6)**	(6.3)
Participants contributions	**1.2**	.9
Benefit obligation at August 31	**$226.4**	$142.7

Notes to Consolidated Financial Statements

(continued)

Change in plan assets *(In Millions)*:

	2002	2001
Plan assets at fair value at September 1	**$ —**	$ —
Plan participants contributions	**1.2**	.9
Employer contributions	**5.4**	5.4
Benefits paid	**(6.6)**	(6.3)
Plan assets at fair value at August 31	**$ —**	$ —

Funded status *(In Millions)*:

	2002	2001
Funded status	**$(226.4)**	$(142.7)
Unrecognized actuarial loss	**99.1**	27.9
Unrecognized prior service cost	**(6.7)**	(7.1)
Accrued benefit cost at August 31	**$(134.0)**	$(121.9)

The discount rate assumptions used to compute the postretirement benefit obligation at year-end were 7.0% for 2002 and 7.5% for 2001.

Future benefit costs were estimated assuming medical costs would increase at a 9% annual rate decreasing to 5.25% over the next seven years and then remaining at a 5.25% annual growth rate thereafter. A one percentage point change in the assumed medical cost trend rate would have the following effects *(In Millions)*:

	1% Increase	1% Decrease
Effect on service and interest cost	$ 4.0	$ (3.0)
Effect on postretirement obligation	49.0	(37.8)

Supplementary Financial Information

Included in the Consolidated Balance Sheets captions are the following assets and liabilities *(In Millions)*:

	2002	2001
Accounts receivable –		
Accounts receivable	**$ 974.9**	$819.2
Allowances for doubtful accounts	**(20.1)**	(20.9)
	$ 954.8	$798.3
Accrued expenses and other liabilities –		
Accrued salaries	**$ 323.8**	$272.7
Taxes other than income taxes	**179.9**	155.5
Profit sharing	**143.3**	122.1
Other	**370.9**	387.2
	$1,017.9	$937.5

Summary of Quarterly Results *(Unaudited)*

(Dollars in Millions, except per share data)

		Quarter Ended				
		November	February	May	August	Fiscal Year
Fiscal 2002	Net sales	**$6,559.4**	**$7,488.5**	**$7,397.9**	**$7,235.3**	**$28,681.1**
	Gross profit	**1,697.9**	**2,033.9**	**1,937.2**	**1,936.0**	**7,605.0**
	Net earnings	**185.9**	**326.6**	**259.0**	**247.7**	**1,019.2**
	Per Common Share – Basic	**$ .18**	**$ .32**	**$ .25**	**$ .25**	**$ 1.00**
	Diluted	**.18**	**.32**	**.25**	**.24**	**.99**
Fiscal 2001	Net sales	$5,614.2	$6,429.0	$6,296.2	$6,283.6	$24,623.0
	Gross profit	1,488.1	1,770.8	1,651.6	1,663.6	6,574.1
	Net earnings	158.4	296.9	213.4	216.9	885.6
	Per Common Share – Basic	$ .16	$ .29	$ .21	$ .21	$ .87
	Diluted	.15	.29	.21	.21	.86

Comments on Quarterly Results: In further explanation of and supplemental to the quarterly results, the 2002 fourth quarter LIFO adjustment was a credit of $9.9 million compared to a 2001 charge of $2.8 million. If the 2002 interim results were adjusted to reflect the actual inventory inflation rates and inventory levels as computed at August 31, 2002, earnings per share would have increased in the first quarter by $.01 and decreased in the fourth quarter by $.01. Similar adjustments in 2001 would have increased earnings per share in the second quarter by $.01 and decreased earnings per share in the fourth quarter by $.01.

The quarter ended November 30, 2001, includes the pre-tax income of $5.5 million (less than $.01 per share) from the partial payment of the brand name prescription drugs antitrust litigation settlement. The quarter ended August 31, 2002, includes the pre-tax income of $.7 million (less than $.01 per share). The quarter ended February 28, 2001, includes the pre-tax income of $22.1 million ($.01 per share) from the second partial payment.

Common Stock Prices

Below is the New York Stock Exchange high and low sales price for each quarter of fiscal 2002 and 2001.

		Quarter Ended				
		November	February	May	August	Fiscal Year
Fiscal 2002	High	**$36.00**	**$40.70**	**$40.29**	**$39.49**	**$40.70**
	Low	**28.70**	**30.72**	**36.10**	**30.20**	**28.70**
Fiscal 2001	High	$45.75	$45.00	$45.29	$42.40	$45.75
	Low	32.75	35.38	37.13	31.00	31.00

Reports of Independent Public Accountants

To the Board of Directors and Shareholders of Walgreen Co.:

We have audited the accompanying consolidated balance sheet of Walgreen Co. and subsidiaries (the "Company") as of August 31, 2002, and the related consolidated statements of earnings, shareholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of the Company for the years ended August 31, 2001 and 2000 were audited by other auditors who have ceased operations. Those auditors expressed in their report dated September 28, 2001 an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Walgreen Co. and subsidiaries as of August 31, 2002, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chicago, Illinois
September 27, 2002

To the Board of Directors and Shareholders of Walgreen Co.:

We have audited the accompanying consolidated balance sheets of Walgreen Co. (an Illinois corporation) and Subsidiaries as of August 31, 2001 and 2000, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three years in the period ended August 31, 2001. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Walgreen Co. and Subsidiaries as of August 31, 2001 and 2000 and the results of their operations and their cash flows for each of the three years in the period ended August 31, 2001 in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Arthur Andersen LLP (1)
Chicago, Illinois
September 28, 2001

(1) This report is a copy of the previously issued report covering fiscal years 2001 and 2000. The predecessor auditor has not reissued their report.

Management's Report

The primary responsibility for the integrity and objectivity of the consolidated financial statements and related financial data rests with the management of Walgreen Co. The financial statements were prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances and included amounts that were based on management's most prudent judgments and estimates relating to matters not concluded by fiscal year-end. Management believes that all material uncertainties have been either appropriately accounted for or disclosed. All other financial information included in this annual report is consistent with the financial statements.

The firm of Deloitte & Touche LLP, independent public accountants, was engaged to render a professional opinion on Walgreen Co.'s consolidated financial statements as of August 31, 2002. Their report contains an opinion based on their audit, which was made in accordance with auditing standards generally accepted in the United States of America and procedures, which they believed were sufficient to provide reasonable assurance that the consolidated financial statements, considered in their entirety, are not misleading and do not contain material errors. The financial statements for the years ended August 31, 2001 and 2000 were audited by other auditors whose report expressed an unqualified opinion on those statements.

Four outside members of the Board of Directors constitute the company's Audit Committee, which meets at least quarterly and is responsible for reviewing and monitoring the company's financial and accounting practices. Deloitte & Touche LLP and the company's General Auditor meet alone with the Audit Committee, which also meets with the company's management to discuss financial matters, auditing and internal accounting controls.

The company's systems are designed to provide an effective system of internal accounting controls to obtain reasonable assurance at reasonable cost that assets are safeguarded from material loss or unauthorized use and transactions are executed in accordance with management's authorization and properly recorded. To this end, management maintains an internal control environment which is shaped by established operating policies and procedures, an appropriate division of responsibility at all organizational levels, and a corporate ethics policy which is monitored annually. The company also has an Internal Control Evaluation Committee, composed primarily of senior management from the Accounting and Auditing Departments, which oversees the evaluation of internal controls on a company-wide basis. Management believes it has appropriately responded to the internal auditors' and independent public accountants' recommendations concerning the company's internal control system.

David W. Bernauer
President
and Chief Executive Officer

William M. Rudolphsen
Controller
and Chief Accounting Officer

Roger L. Polark
Senior Vice President
and Chief Financial Officer

Board of Directors

As of November 18, 2002

Directors

L. Daniel Jorndt*
Chairman
Elected 1990

David W. Bernauer*
President and
Chief Executive Officer
Elected 1999

William C. Foote
Chairman of the Board,
Chief Executive Officer
and President
USG Corporation
Elected 1997

James J. Howard
Chairman Emeritus
Xcel Energy, Inc.
Elected 1986

Alan G. McNally
Chairman
Harris Bankcorp Inc.
Elected 1999

Cordell Reed
Former Senior Vice President
Commonwealth Edison Co.
Elected 1994

David Y. Schwartz
Former Partner
Arthur Andersen LLP
Elected 2000

John B. Schwemm
Former Chairman and
Chief Executive Officer
R.R. Donnelley & Sons Co.
Elected 1985

Marilou M. von Ferstel
Former Executive Vice President
and General Manager
Ogilvy Adams & Rinehart
Elected 1987

Charles R. Walgreen III
Chairman Emeritus
Elected 1963

** L. Daniel Jorndt will retire in January 2003. David W. Bernauer will become chairman and chief executive officer. Jeffrey A. Rein will become president and chief operating officer. George J. Riedl will become senior vice president–Marketing.*

Committees

Audit Committee
John B. Schwemm,
Chairman
William C. Foote
David Y. Schwartz
Marilou M. von Ferstel

Compensation Committee
Cordell Reed,
Chairman
James J. Howard
John B. Schwemm

Finance Committee
David Y. Schwartz,
Chairman
David W. Bernauer
L. Daniel Jorndt
Alan G. McNally
Cordell Reed
Charles R. Walgreen III

Nominating and Governance Committee
William C. Foote,
Chairman
James J. Howard
Alan G. McNally
John B. Schwemm
Marilou M. von Ferstel

Officers

As of November 18, 2002

Corporate

Chairman
L. Daniel Jorndt*

President
David W. Bernauer*
Chief Executive Officer

Executive Vice Presidents
Jerome B. Karlin
Store Operations
Jeffrey A. Rein*
Marketing

Senior Vice Presidents
R. Bruce Bryant
Western Store Operations
George C. Eilers
Eastern Store Operations
J. Randolph Lewis
Distribution & Logistics
Julian A. Oettinger
General Counsel and
Corporate Secretary
Roger L. Polark
Chief Financial Officer
William A. Shiel
Facilities Development
Trent E. Taylor
Chief Information Officer
Mark A. Wagner
Central Store Operations

Vice Presidents
John W. Gleeson
Corporate Strategy and Treasurer
Dana I. Green
Human Resources
Dennis R. O'Dell
Health Services
Gregory D. Wasson
President
Walgreens Health Initiatives

Operational and Divisional

Store Operations Vice Presidents
James F. Cnota
Kermit R. Crawford
George C. Eilers Jr.
Debra M. Ferguson
John J. Foley
David L. Gloudemans
John W. Grant
Frank C. Grilli
William M. Handal
Patrick E. Hanifen
Barry L. Markl
Richard Robinson
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Bruce C. Zarkowsky
Barry W. Zins

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Construction and Facilities
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Corporate Communications
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Robert E. Rogan
Distribution Centers
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Real Estate
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Controller
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Craig M. Sinclair
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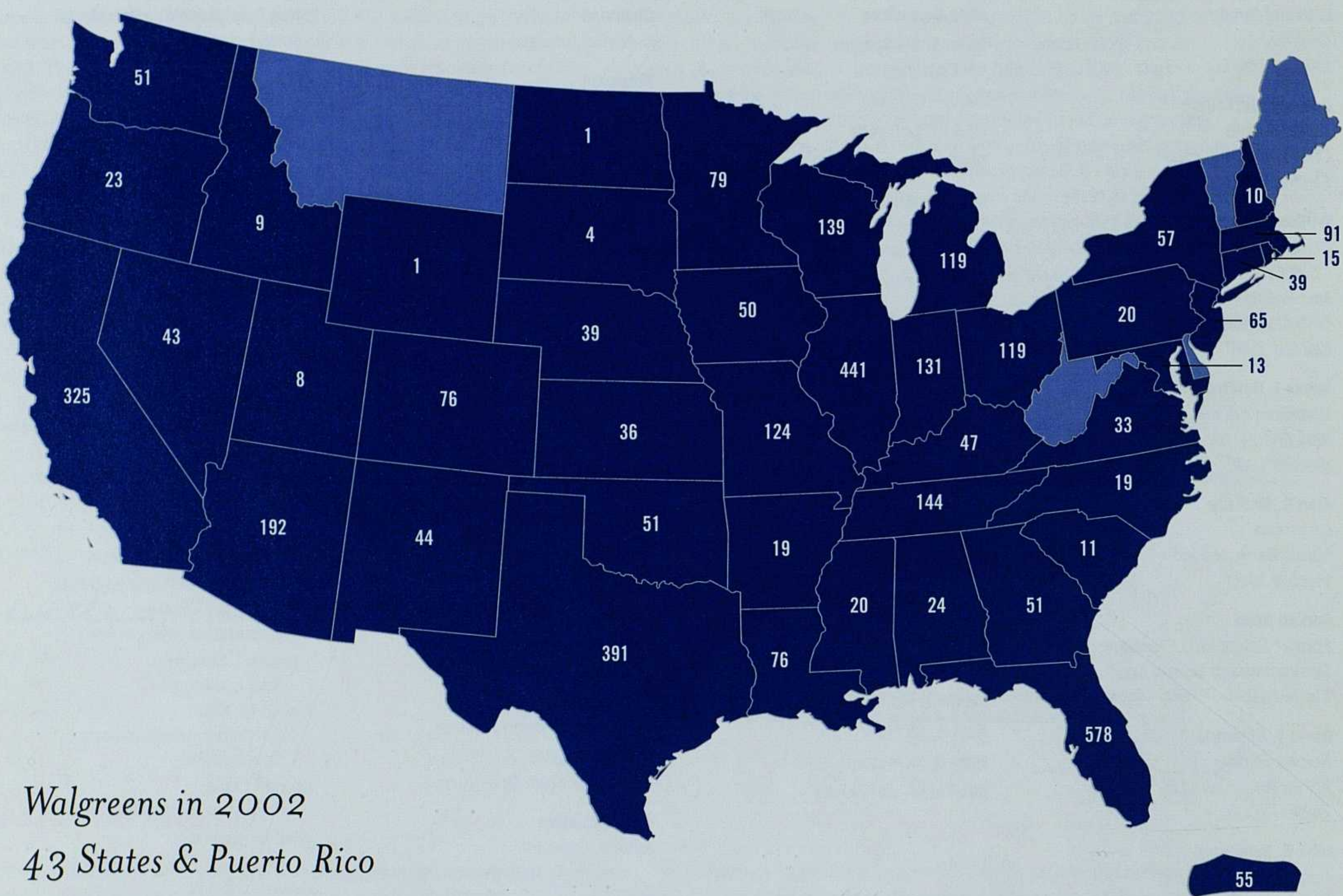
Patrick W. Tupa
Real Estate
Terry R. Watkins
Distribution Centers
Kenneth R. Weigand
Employee Relations
Denise K. Wong
Supply Chain Systems
Chester G. Young
General Auditor
Robert G. Zimmerman
Vice President – Administration
Walgreens Health Initiatives

Walgreens Nationwide



Walgreens in 2002
43 States & Puerto Rico

State	2002	2001
Alabama	**24**	16
Arizona	**192**	178
Arkansas	**19**	17
California	**325**	274
Colorado	**76**	65
Connecticut	**39**	35
Florida	**578**	538
Georgia	**51**	30
Idaho	**9**	8
Illinois	**441**	418
Indiana	**131**	124
Iowa	**50**	46
Kansas	**36**	32
Kentucky	**47**	46
Louisiana	**76**	71
Maryland	**13**	8
Massachusetts	**91**	84
Michigan	**119**	106
Minnesota	**79**	77
Mississippi	**20**	16
Missouri	**124**	117
Nebraska	**39**	37
Nevada	**43**	41
New Hampshire	**10**	10
New Jersey	**65**	54
New Mexico	**44**	43
New York	**57**	55
North Carolina	**19**	10
North Dakota	**1**	1
Ohio	**119**	106
Oklahoma	**51**	44
Oregon	**23**	21
Pennsylvania	**20**	17
Rhode Island	**15**	15
South Carolina	**11**	6
South Dakota	**4**	4
Tennessee	**144**	125
Texas	**391**	358
Utah	**8**	4
Virginia	**33**	27
Washington	**51**	42
Wisconsin	**139**	139
Wyoming	**1**	1
Puerto Rico	**55**	54
Total	**3,883**	3,520

All information on this page is provided as of fiscal year-end.

Drugstores and Sales Overview

Fiscal Year		2002	2001	2000	1999	1998
Drugstores	Openings					
	New Stores	**471**	473	461	386	303
	Acquisitions	**0**	1	1	0	1
	Closings	**108**	119	118	114	113
	Year-end: Units *(1)*	**3,883**	3,520	3,165	2,821	2,549
	Year-end: Sales Area *(2)*	**42,672**	38,226	33,684	29,230	26,024
Product Class Sales	Prescription Drugs	**60%**	58%	55%	52%	50%
	Nonprescription Drugs *(3)*	**11**	12	11	12	12
	Cosmetics, Toiletries *(3)*	**7**	7	8	8	8
	General Merchandise *(3)*	**22**	23	26	28	30

(1) Includes 38 pharmacy-only units and three mail service facilities at August 31, 2002.

(2) In thousands of square feet.

(3) Estimates based, in part, on store scanning information.

Shareholder Information

Corporate Headquarters
Walgreen Co.
200 Wilmot Road
Deerfield, Illinois 60015
(847) 940-2500

Internet Address
Major press releases and other information are available at www.walgreens.com.

Stock Market Listings
New York Stock Exchange
Chicago Stock Exchange
Symbol: WAG

Investor Contacts
Rick J. Hans
John W. Gleeson

Annual Shareholders' Meeting
You are cordially invited to attend the meeting to be held Wednesday, January 8, 2003, 2 p.m. CST, in the Grand Ballroom, Navy Pier, Chicago, Illinois. Formal notice of the meeting, with proxy card and proxy statement, was mailed to all shareholders of record as of November 19, 2002.

Shareholder Communications
Please address inquiries or comments to:

Shareholder Relations
Walgreen Co. – Mail Stop #2261
200 Wilmot Road
Deerfield, Illinois 60015
(847) 914-2972

The company's annual report to the Securities and Exchange Commission, Form 10-K, may be obtained by any shareholder, free of charge, by visiting www.walgreens.com or upon written request.

Electronic Reports
For instructions on how to receive proxy statements, annual reports to shareholders and related materials electronically, refer to the proxy card that was mailed to shareholders with this annual report. After January 8, 2003, call (847) 914-2636 to request electronic delivery.

Quarterly Reports
Quarterly earnings release dates for 2003 are January 3, March 24, June 23 and September 29. Results are released to the press and posted on Walgreens Web site. Quarterly reports are also mailed to shareholders on request. You may request reports at any time by contacting Shareholder Relations at (847) 914-2972.

Dividend Payment Dates
Walgreens pays dividends in March, June, September and December. Checks are customarily mailed on the 12th of each of these months.

Transfer Agent and Registrar
For assistance on matters such as lost shares or name changes on shares, please contact:

Computershare Investor Services
2 North LaSalle Street
Chicago, Illinois 60602
Web site: www.computershare.com
E-mail: web.queries@computershare.com
Phone: (888) 368-7346

Direct Stock Purchase Plan
Computershare Investor Services sponsors and administers a direct stock purchase plan as a convenient method of acquiring Walgreen stock by cash payments, reinvestment of dividends or both. For an information booklet and enrollment form, please call (888) 368-7346. General inquiries to Computershare Investor Services regarding your Walgreen stock should also be directed to (888) 368-7346.

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Customer Jennifer Hill
Chula Vista, California